

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of Tax and Revenue

OTR NOTICE
MAY 7, 2002

DISTRICT WILL NOT ALLOW ADDITIONAL “BONUS DEPRECIATION”

Under new IRS rules, for federal tax purposes, businesses are eligible to deduct an additional first-year “bonus depreciation” amount equal to 30% of the cost of capital assets placed in service between September 10, 2001 and September 11, 2004.

For District tax purposes, taxpayers are not permitted to claim this 30% Bonus Depreciation.

**DISTRICT DOES NOT ALLOW NET OPERATING LOSS (NOL)
TO BE CARRIED BACK TO PRIOR TAX YEARS**

Federal tax rules provide that, for federal tax purposes, businesses shall be allowed to carryback a net operating loss to each of the 2 taxable years proceeding the taxable year of such loss. Recent federal legislation extends this to 5 years.

For District tax purposes, for tax years beginning after 12/31/99, taxpayers are not permitted to carryback net operating losses to years preceding the taxable year of such loss.

For all taxable year 2001, 2002, 2003, and 2004 tax returns: If a taxpayer has included the 30% Bonus Depreciation or the NOL carryback permitted for federal tax purposes in the calculation of District Taxable Income, the 30% Bonus Depreciation must be removed from the amount of depreciation deducted. The net operating loss carryback is not permitted in the calculation of District Taxable Income.

For D-20 and D-30 filers, line 20, page 1 of the D-20 and the D-30 should be adjusted to eliminate the amount of Special or 30% Bonus Depreciation for property acquired after 9/10/2001 that is shown on IRS Form 4562, Part II [or wherever the amount of Special or 30% Bonus Depreciation for property acquired after 9/10/2001 is listed]. For District tax purposes, taxpayers are allowed to deduct an amount of depreciation equal to depreciation calculated without regard to section 168(k) of the Internal Revenue Code (IRC).

If a taxpayer has already filed a tax return for the taxable year 2001, and if the taxpayer has utilized the 30% Bonus Depreciation in calculating the amount of depreciation deducted on the tax return, the taxpayer is required to file an amended tax return for 2001, deducting the recalculated amount of depreciation, attaching a statement showing the recalculation and the adjustment to the depreciation shown on IRS Form 4562.

Example: Taxpayer purchased an asset that is “qualified property” under section 168(k)(2) of the IRC for \$1000 on 10/10/2001. The asset has a recovery period of 5 years.

For federal tax purposes, the depreciation deduction for the 2001 tax year is \$440: \$300 of Bonus Depreciation and \$140 of additional depreciation. For each of the 2002-2005 tax years, the depreciation deduction is \$140.

For District tax purposes, the depreciation deduction for each of the 2001-2005 tax years is \$200.